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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [EAGR](#) [EFIN](#) [PINR](#) [TW](#) [CH](#)
SUBJECT: MA ECONOMIC POLICY PRESENTS CHALLENGES - AND
OPPORTUNITIES - FOR U.S. INTERESTS

REF: A. 08 TAIPEI 808 (NOTAL)
[1](#)B. TAIPEI 206 (NOTAL)
[1](#)C. TAIPEI 221 (NOTAL)
[1](#)D. 08 TAIPEI 1428 (NOTAL)
[1](#)E. 08 TAIPEI 1490 AND PREVIOUS (NOTAL)

Classified By: Stephen M. Young, AIT Director, for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY. Entering office last May determined to build cross-Strait economic ties and recharge Taiwan's economic growth, the administration of President Ma Ying-jeou has instead been confronted with an unprecedented global economic downturn. Nearly a year into its tenure, the Ma administration can point to enhanced cross-Strait economic ties as a clear policy success. In the midst of a deteriorating economy, however, Ma's team has few options to highlight the specific economic benefits of its cross-Strait policy. The Ma Cabinet's problems are compounded by a diffuse economic policy structure that has led critics to accuse the President of lacking a clear economic vision. In practice, a shifting amalgam of public opinion, underlying principle, and special interests have been key factors in determining Ma's economic policy on key bilateral priorities with the U.S.

[1](#)2. (C) The Ma administration has responded positively to U.S. advocacy when benefits are deemed to outweigh disadvantages, as in GPA accession, but has acted with extreme caution when our priorities are seen as invoking domestic political risk, as with beef market access. At the same time, the Ma administration has now determined to embark on the domestically controversial course of pursuing a bilateral Economic Cooperation Framework Agreement (ECFA) with the PRC. In addition to enhancing ties with China, such an agreement is seen in Taiwan as a necessary precursor to improving economic relations with ASEAN and other major trading partners - including the U.S. Even as we continue to press for prompt resolution of individual trade disputes, Taiwan's emerging cross-Strait policy presents important opportunities for advancing our own comprehensive economic interests with the U.S.' twelfth-largest economic partner. END SUMMARY.

WHO DOES WHAT ON ECONOMIC POLICY?

13. (C) According to Taiwan's constitution, the President is responsible for defense, foreign affairs, and cross-Straight issues. The appointed Premier, as head of the Executive Yuan (EY), handles essentially everything else, including economic policy. In practice, however, President Ma has taken an active personal role on many economic issues. Ma holds weekly policy meetings with Vice President Vincent Siew, Premier Liu Chao-shiuan, Vice Premier Paul Chiu, and National Security Council Secretary General Su Chi. Other officials may also join, depending on the issues at hand. Since the Premier has relatively little experience with economic affairs, the Vice Premier, a former Minister of Finance with a long economic policy resume, is often charged with coordinating and implementing specific economic policies. Chiu has been asked, for example, to chair a host of important economic policy committees addressing such topics as tax reform, price stability, financial reform, and unemployment. Regardless of formal responsibilities, decisions on most important economic policies appear to be made by President Ma himself.

14. (C) Given his extensive experience on economic issues, including stints as Premier, Chairman of the Council for Economic Planning and Development (CEPD), Chairman of the Mainland Affairs Council (MAC), and Minister of Economic Affairs, Vice President Siew was widely expected to play a prominent economic policy role. In fact, Ma's choice of Siew as his running mate reinforced the KMT's campaign criticism of what Ma characterized as the DPP administration's lackluster economic record. In practice, however, Siew thus far seems to be playing a relatively minor economic policy role, both publicly and behind the scenes. In one summer 2008 meeting with a U.S. visitor, for example, Siew indicated that his time was dominated by the ceremonial responsibilities traditionally associated with his post (ref a). Partially in response to criticism of an incoherent and ineffective administration economic effort, in late 2008 Siew began convening a series of economic policy discussions with private economists, businesspeople, and other experts. One participant, however, told us privately that she found the sessions poorly organized and a waste of time. After an initial media splash, the public side of the intermittent meetings seems to have faded.

15. (C) In addition to the Vice President, Premier, and Vice Premier, President Ma holds a separate weekly meeting with Central Bank Governor Perng Fai-nan. In his current position since 1998, Perng enjoys a strong reputation for nonpartisan competence. In contrast to the Chen administration, the National Security Council (NSC) under Secretary General Su Chi plays a prominent role on international economic policy. Su enjoys a close personal working relationship with the President, and both Su and his deputy, Ho Sze-yin, have been among our principal interlocutors on the beef market access and GPA accession issues. The Mainland Affairs Council's relative influence has been eclipsed to some extent by that of the Straits Exchange Foundation, headed by KMT Vice Chairman P.K. Chiang. This situation may result in part from the fact that MAC Chairwoman Lai Shin-yuan, a former Taiwan Solidarity Union (TSU) legislator, is not part of the KMT. In addition, the proliferation of other avenues of cross-Straight policy coordination is simply leaving the MAC with the same slice of an expanding pie.

16. (C) In the meantime, no policy stars have emerged from among the individual line ministers. In what is no doubt a reflection of Taiwan's deteriorating economy, Minister of Economic Affairs Yiin Chi-ming, Finance Minister Lee Sush-der, and CEPD Chairman Chen Tain-jy often appear near the bottom of public popularity polls, while Financial Supervisory Commission (FSC) Chairman Sean Chen only recently took office after the November 2008 resignation of his predecessor over a political dispute. In past administrations, the Council for Economic Planning and Development (CEPD) has sometimes enjoyed a prominent interagency coordination function. Current CEPD Chairman Chen, however, has privately complained about excessive

bureaucratic interference in CEPD efforts to devise the "consumption voucher" and other economic stimulus programs. Finally, the KMT-dominated Legislative Yuan (LY) plays a relatively minor role in economic policy. Individual KMT legislators sometimes disagree strongly with specific administration proposals, and LY Speaker Wang Jin-pyng is no fan of President Ma. Regardless, in practice, the KMT-controlled LY virtually always approves legislation proposed by the EY, usually without major amendment.

ECONOMIC CRISES CONTRIBUTE TO LACK OF FOCUS

¶7. (C) Taiwan economic policymaking includes prominent formal roles for the Premier, Vice Premier, "line" and "without portfolio" ministers, and the CEPD, as well as important ad hoc roles for the President, NSC, and SEF. Overall, this hydra-like structure has contributed to a lack of focus and coordination in Ma administration economic policy. At the same time, global events have dealt Ma's cabinet an especially daunting economic policy hand. Partially as a result, the administration has sometimes given the impression that it is lurching from crisis to crisis, and can appear to have limited ability to address more than one priority issue at a time. Right after Ma's May 2008 inauguration, economic policy focused on removing the financially unsustainable gasoline and electricity price controls imposed by the Chen administration, as well as starting direct cross-Strait passenger flights and other measures to expand economic ties with China. The economic policy team then concentrated on addressing last summer's surge in inflation, a threat that quickly seemed quaint in comparison with the gyrating stockmarket and swooning global economy that dominated attention in the fall. Although Taiwan's financial system has remained essentially sound, the economy has been struck by a collapse in export demand. As a result, the spotlight has shifted to economic stimulus measures and, increasingly, combating growing unemployment. The cross-Strait agenda has moved ahead, including the November 2008 establishment of direct cross-Strait transportation and postal links. In recent weeks, business sector concerns have brought plans for a Taiwan-PRC "Economic Cooperation Framework Agreement" to the fore.

ANALYZING MA AND HIS ECONOMIC TEAM

¶8. (C) According to Minister-without-portfolio Chu Yun-peng, President Ma becomes personally involved in major economic policy planning, especially when a proposal requires legislative approval. Otherwise, individual ministers can enjoy a strong degree of autonomy, under the overall coordination of the Vice Premier. Charles Kao is founder of the Common Wealth publishing group, whose journals and books often influence the economic policy debate, and has close ties to the Vice President and other KMT policymakers. In his view, President Ma is a "long distance runner" with a cautious decision-making style based largely on consensus. Kao said Ma's economic team suffers from lack of leadership, and does not have a dominant minister who dares to make difficult policy decisions in the face of public criticism. Kao implied that there is widespread disappointment with the performance of Vice Premier Chiu, in particular, and noted that Chiu's courtly demeanor leaves him reluctant to make tough choices and risk alienating constituents.

¶9. (C) Kenneth Lin, a National Taiwan University professor and advisor to 2008 DPP presidential candidate Frank Hsieh, told us he declined an offer to advise Ma on economic policy after the election. Lin criticizes Ma's economic team as a collection of individuals pursuing separate agendas. The President, he asserts, listens to his formal advisors, but also absorbs information from outside sources, and then makes decisions while ostensibly remaining "behind the scenes" on policy issues. Lin believes Ma's Cabinet has been ineffective at publicly explaining economic policy, and lacks

an effective economic spokesperson. Some of Lin's criticisms are echoed by Christina Liu, a private economist and former People First Party (PFP) legislator who writes frequently on economic policy. In her view, the Ma Cabinet suffers from lack of an overarching economic policy vision.

WHAT DOES IT MEAN FOR INTERNATIONAL ECONOMIC POLICY?

¶10. (C) The Ma team's economic decisionmaking appears to be based on a calculus that includes adherence to an established economic platform, sensitivity to opposition and media criticism, the imperative of pressing crises, and response to interest group pressure. With the important exception of cross-Straight economic ties, economic policy traditionally musters a relatively high degree of consensus in Taiwan. Ma campaigned on a platform of reducing unemployment to 3%, raising GDP growth to 6% per annum, and increasing per capita GDP to USD 30,000. The global economic crisis has dashed any near-term hope for realizing those goals, which were ambitious to begin with. In addition, Ma's economic platform emphasized enhancing cross-Straight economic links as part of a broader effort to revive Taiwan's growth after what he publicly described as the "stagnation" of the Chen years. Ma is not a Thatcher-style "conviction politician" on economic issues, however, and his economic policy views are firmly in line with the pragmatic, business-friendly philosophy that characterized KMT policy during its previous years in power.

¶11. (C) Thus far, greatly expanded cross-Straight economic ties are the Ma team's biggest economic policy success. Direct air, shipping, and postal links have all been implemented, while restrictions on the number of PRC tourists allowed to visit Taiwan have been relaxed. Limits on Taiwan investment in China have been eased, and cross-Straight business cooperation is proliferating (ref b). The Ma administration appears to be getting relatively little public credit for its cross-Straight successes, however. The administration itself is partially to blame for engendering unrealistic public expectations of dramatic progress, although most experts believe the real benefits from enhanced economic relations with China will take years to be realized. Meanwhile, the severe global downturn has made it impossible for Ma to point to quickening growth as the fruit of direct links.

¶12. (C) The administration's recent announcement that it plans to negotiate an Economic Cooperation Framework Agreement (ECFA) with the PRC (ref c) stems from immediate concerns by petrochemical and other specific industry sectors about their possible regional marginalization after the advent of ASEAN 1 in 2010 (ref c). More broadly, the Ma administration sees conclusion of an ECFA with China as a necessary precursor to closer economic relations with Taiwan's other major trading partners, starting with ASEAN (ref d), but also extending to the U.S. In addition to an agreement with ASEAN as a body, Taiwan is especially interested in a bilateral FTA with Singapore. Singapore, in turn, has made it clear that it will explore enhanced economic ties with Taiwan only in the context of improved cross-Straight economic relations.

¶13. (C) In the midst of a sharp economic downturn, with a public approval rating of about 35% in February, Ma pressed ahead with announcing Taiwan's intention to negotiate an ECFA. Originally modeled on the PRC's framework agreement with ASEAN, the ECFA proposal has immediately become a controversial domestic political issue, especially since it was first named CECA (Comprehensive Economic Cooperation Agreement), which to some in Taiwan sounded suspiciously like the PRC-Hong Kong CEPA (Closer Economic Partnership Arrangement). The opposition, in particular, has raised the spectre that China might use economic means to draw Taiwan into its fold politically.

¶14. (C) Taiwan joined the WTO in 2002, but the Chen administration long cited nomenclature concerns in failing to fulfill its commitment to accede to the WTO Government

Procurement Agreement (GPA). Less focused on symbolic nomenclature issues, the Ma administration responded to coordinated lobbying by the U.S. and the EU in Taipei and Geneva, and finally agreed to accede in late 2008. The decision to accede is poised for approval in the LY, and has thus far elicited no serious domestic political controversy. On the more technical WTO issue of interpreting the Information Technology Agreement (ITA), Taiwan was willing to support the U.S. position, especially since it dovetails with the interests of Taiwan's technology sector.

¶15. (C) In contrast to the GPA issue, however, the Ma administration has invoked fears of a domestic backlash in pursuing a cautious policy on opening Taiwan's market to the full range of U.S. beef imports. Taiwan has no domestic beef industry, and the island's consumers have already shown a clear willingness to buy boneless U.S. beef. Nevertheless, President Ma was alarmed by last year's South Korean protests against U.S. beef imports, drawing immediate parallels between his own status as a newly-elected right-of-center leader pledged to implement economic reform, and the similar profile of South Korean President Lee. Ma is doubtless also wary about taking any steps that could further damage his current low standing in public opinion polls. Taiwan's fall 2008 panic over melamine-tainted dairy imports from the PRC highlighted the reality of a nervous Cabinet, publicly embodied by then-Minister of Health Lin, who resigned under LY fire, and his skittish successor, current-Minister of Health Yeh. The result was the government's immediately kowtowing to perceived public demands for a "zero tolerance" melamine standard (ref e), regardless of sound science, trade implications, or prevailing international practice.

¶16. (C) The melamine experience only reinforced Taiwan's inherent caution in addressing the beef issue, which Ma and Health Minister Yeh continue to see as potentially explosive with the general public. This risk aversion is also seen on other agricultural market access issues, especially the setting of maximum residue levels (MRLs) for pesticides and animal drug residues. The January 2009 publication of a Department of Health risk assessment report attesting to the safety of U.S. beef, thus far with virtually no perceivable public outcry, has helped ease administration fears. Regardless, however, the Ma team has thus far decided that the potential risks of rapidly opening Taiwan's market to all U.S. beef products have simply not been worth the immediate perceived benefit. Preoccupied with cross-Straight and domestic concerns, and confronted with the change in U.S. administration in January, Ma and his team have not yet been willing to take the political risk to adopt a potentially controversial decision. There is some evidence now that Ma is reevaluating this decision, in part as he weighs the value of removing the beef irritant from bilateral relations with the Obama administration. We will only know for sure when he acts, however, and that has not happened yet.

CONCLUSION: TAKING ADVANTAGE FOR U.S. INTERESTS

¶17. (C) The Ma administration wants to expand Taiwan's economic relations with all of its trading partners, including the U.S. Ma's initial efforts have concentrated on enhancing ties with the PRC, Taiwan's largest trading partner by far. Despite arousing domestic sensitivities about potential damage to sovereignty or the "hollowing out" of Taiwan's economy, improvements in cross-Straight economic relations are embraced by the majority of Taiwan's business community. They are also seen by policymakers and commercial interests alike as a necessary first step in building Taiwan's economic ties to ASEAN, Japan, the U.S., and other important trading partners.

¶18. (C) Meanwhile, a cautious and diffuse economic policy apparatus, at times hobbled by a dearth of firm leadership, complicates our advocacy on beef and other issues. Perhaps ironically, Taiwan's current economic and trade initiatives with the PRC now surpass its similar efforts with the U.S.,

although the Ma administration may be driven by a sense it has considerable catch-up work to do with China. Taiwan's vibrant democracy will inevitably inject sometimes-volatile public opinion into our bilateral economic policy mix. At the same time, Ma and his advisors have underscored to us the need to strengthen our bilateral ties in order to balance or counter the fact and perception of Taiwan's over-reliance on the Mainland. Hence, the near-term prospect of dramatically expanded China and ASEAN economic links for our twelfth-largest trading partner presents the U.S. with a fresh impetus to pursue our own comprehensive economic interests with Taiwan.

¶19. (C) Agricultural and other market issues will continue to crop up, sometimes unpredictably. The U.S. must remain aggressive in addressing specific trade irritants as they arise. We must also, however, remember our own practical interests in exploiting Taiwan's growing links to the Chinese and other regional economies. After economic growth resumes, Taiwan's traditional importance as a U.S. trading partner and investment destination will be enhanced by its emerging role as an economic gateway to China. The U.S. is already the biggest foreign investor here. Improving Taiwan's investment climate, including through a bilateral investment agreement, remains the top priority of the U.S. business community. In large part due to sustained U.S. engagement, Taiwan has become a regional leader on IPR enforcement. From e-commerce to reducing pollution in ports, our ongoing cooperation is also showing clear signs of progress in advancing U.S. priorities. The reality of Ma administration economic policymaking may make Taiwan a difficult partner on some specific irritants. At a deeper level, however, this reality also presents valuable opportunities to pursue broader U.S. goals.

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